

SOUTH DAKOTA PRE-EXISTING CONDITION INSURANCE PLAN

FEDERAL HIGH RISK POOL

AUDIT REPORT

December 31, 2013

SOUTH DAKOTA PRE-EXISTING CONDITION INSURANCE PLAN
FEDERAL HIGH RISK POOL
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MARTIN L. GUINDON, CPA
AUDITOR GENERAL

INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL OVER
FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS
BASED ON AN AUDIT OF FINANCIAL STATEMENTS
PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS

The Honorable Dennis Daugaard
Governor of South Dakota

and

The South Dakota Bureau of Human Resources

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the South Dakota Pre-Existing Condition Insurance Plan, which comprise the statement of net position as of December 31, 2013, and the related statements of revenues, expenses and changes in net position, and cash flows for the year then ended, and the related notes to the financial statements, and have issued our report thereon dated June 16, 2014.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the Bureau of Human Resources' internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of Bureau of Human Resources' internal control. Accordingly, we do not express an opinion on the effectiveness of the Bureau of Human Resources' internal control.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

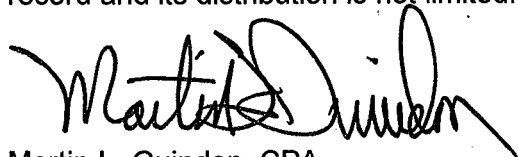
Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the South Dakota Pre-Existing Condition Insurance Plan's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose. As required by South Dakota Codified Law 4-11-11, this report is a matter of public record and its distribution is not limited.



Martin L. Guindon, CPA
Auditor General

June 16, 2014



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MARTIN L. GUINDON, CPA
AUDITOR GENERAL

INDEPENDENT AUDITOR'S REPORT

The Honorable Dennis Daugaard
Governor of South Dakota

and

The South Dakota Bureau of Human Resources

Report on the Financial Statements

We have audited the accompanying financial statements and the related notes to the financial statements of the South Dakota Pre-Existing Condition Insurance Plan, an enterprise fund of the State of South Dakota, as of and for the year ended December 31, 2013, which collectively comprise the Fund's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor

considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

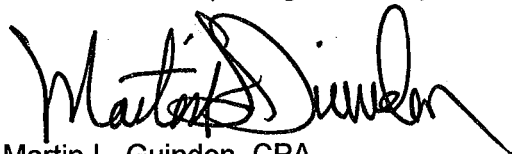
In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the South Dakota Pre-Existing Condition Insurance Plan as of December 31, 2013, and the changes in its financial position and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matter

As described in Note 1, the financial statements present only the financial position and changes in financial position and cash flows of the South Dakota Pre-Existing Condition Insurance Plan. They do not purport to, and do not, present fairly the financial position of the State of South Dakota as of December 31, 2013, and the changes in its financial position and its cash flows, where applicable, for the fiscal year then ended in conformity with accounting principles generally accepted in the United States of America. Our opinion is not modified with respect to this matter.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated June 16, 2014 on our consideration of the Bureau of Human Resources' internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Bureau of Human Resource' internal control over financial reporting and compliance.



Martin L. Guindon, CPA
Auditor General

June 16, 2014

**Bureau of Human Resources
South Dakota Pre-Existing Condition Insurance Plan
Statement of Net Position
December 31, 2013**

Assets

Current Assets:

| | |
|------------------------------------|----------------|
| Cash and Cash Equivalents (Note 2) | \$ 5,144 |
| Account Receivable (Note 4) | 344,473 |
| Total Current Assets | <u>349,617</u> |

Liabilities

Current Liabilities:

| | |
|-----------------------------------|----------------|
| Accounts Payable | 446 |
| Accrued Liabilities | 581 |
| Due to Other funds | 145 |
| Due To Other Governments (Note 5) | 344,473 |
| Total Current Liabilities | <u>345,645</u> |

Net Position

| | |
|---------------------------|------------------------|
| Unrestricted | <u>3,972</u> |
| Total Net Position | <u><u>\$ 3,972</u></u> |

The accompanying notes are an integral part of the financial statements

Bureau of Human Resources
South Dakota Pre-Existing Condition Insurance Plan
Statement of Revenues, Expenses and Changes in Net Position
For Year Ended December 31, 2013

Operating Revenue:

| | |
|--|------------------|
| Federal Revenue Under Contract | \$ 4,579,522 |
| Premiums, net of Refund of Prior Year's Revenue (Note 2) | 585,882 |
| Total Operating Revenue | <u>5,165,404</u> |

Operating Expenses:

| | |
|---|------------------|
| Personal Services and Benefits | 39,591 |
| Contractual Services | 74,063 |
| Supplies | 467 |
| Insurance Claims, net of Refund of Prior Year's Expense | 5,035,177 |
| Total Operating Expenses | <u>5,149,298</u> |

| | |
|--------------------------------|--------|
| Operating Income (Loss) | 16,106 |
|--------------------------------|--------|

| | |
|-------------------------------|--------|
| Change in Net Position | 16,106 |
|-------------------------------|--------|

| | |
|------------------------------|------------------------|
| Net position - beginning | (12,134) |
| Net position - ending | <u><u>\$ 3,972</u></u> |

The accompanying notes are an integral part of the financial statements

Bureau of Human Resources
South Dakota Pre-Existing Condition Insurance Plan
Statement of Cash Flows
For the Year Ended December 31, 2013

Cash Flows From Operating Activities

| | | |
|---|-------------|--------------|
| Receipts from Customers and Users | \$ 503,873 | |
| Receipts from Federal Contract Assessments | 5,856,188 | |
| Payments to Suppliers | (6,278,860) | |
| Payments for Employee Services | (58,140) | |
| Payments for Interfund Services Used | (17,921) | |
| Net Cash Provided by Operating Activities | | 5,140 |
| Net Increase in Cash and Cash Equivalents During the Fiscal Year | | 5,140 |
| Cash and Cash Equivalents at Beginning of Year | | 4 |
| Cash and Cash Equivalents at End of Year | \$ | <u>5,144</u> |

**Reconciliation of Operating Income to Net Cash
Provided (Used) by Operating Activities**

| | |
|------------------|-----------|
| Operating Income | \$ 16,106 |
|------------------|-----------|

**Adjustment to Reconcile Operating Income to
Net Cash Provided by Operating Activities:**

Decrease/(Increase) in Assets:

| | |
|----------------------------|-----------|
| Due From Other Governments | 1,276,666 |
| Accounts Receivable | (344,473) |

Increase/(Decrease) in Liabilities:

| | |
|---|-------------|
| Accounts Payable | (11,111) |
| Accrued Liabilities | (6,416) |
| Due To Other Governments | 344,473 |
| Compensated Absences Payable Long Term | (5,667) |
| Compensated Absences Payable Short Term | (6,467) |
| Due to Other Funds | (3,343) |
| Premiums Paid in Advance | (122,695) |
| Policy Claims Liabilities | (1,131,933) |
| Total Adjustments | (10,966) |

| | |
|--|-----------------|
| Net Cash Provided (Used) by Operating Activities | \$ <u>5,140</u> |
|--|-----------------|

The accompanying notes are an integral part of the financial statements

**Pre-Existing Condition Insurance Plan
Notes to the Financial Statements
For Calendar Year Ended December 31, 2013**

1. Description of the Fund

The South Dakota Pre-Existing Condition Insurance Plan (PCIP), established in 2010, is part of the State of South Dakota's financial reporting entity and is reported as an enterprise fund in the State's Comprehensive Annual Financial Report.

The South Dakota Pre-Existing Condition Insurance Plan, which is administered by the South Dakota Bureau of Human Resources under contract with the U.S. Department of Health and Human Services, provides a health coverage option for individuals who have been denied coverage. The contract requires the Bureau of Human Resources to provide coverage for the uninsured individuals who qualify under the PCIP and the PCIP is reimbursed for any costs over the amount of premium revenue received.

As the Contractor, the State of South Dakota may terminate the contract at the end of each option period by notifying the U.S. Department of Health and Human Services 120 calendar days before the planned termination. Option periods end on December 31, 2011; December 31, 2012; and December 31, 2013.

On May 1, 2013, State Administration and representatives from the U.S. Department of Health and Human Services discussed future contract period(s) beyond May 31, 2013. Contract renewal language was not acceptable to the State. The contract was terminated at the end of the State fiscal year ending June 30, 2013.

2. Summary of Significant Accounting Policies

Basis of Presentation and Accounting

The accompanying financial statements of the PCIP have been prepared in conformity with generally accepted accounting principles for governments as prescribed by the Governmental Accounting Standards Board (GASB).

The accompanying financial statements were prepared based upon the full accrual basis of accounting. Under the accrual basis of accounting, revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. The PCIP follows all GASB pronouncements.

Operating revenues and expenses are directly related to the ongoing activities of the PCIP.

Cash and Cash Equivalents

Cash and cash equivalents represents the PCIP's participating interest in the State's internal investment pool held by the State Treasurer. The amount held in the State's internal investment pool is reported at fair value. The investment policy and required risk disclosures for the State's internal investment pool are presented in the South Dakota Investment Council's audit report which can be obtained by contacting Department of Legislative Audit, 427 South Chapelle, Pierre, South Dakota 57501.

Premium Revenue

Premiums are recognized as revenues over the terms of the insurance policies, and a liability for unearned premiums is established to reflect premiums received applicable to subsequent accounting periods.

3. Policy Claim Liability

Changes in PCIP's policy claim liability balances were as follows:

| | <u>Beginning Balance</u> | <u>Incurred Claims and Changes in Estimates</u> | <u>Claim Payments</u> | <u>Ending Balance</u> |
|---|-------------------------------------|--|----------------------------------|----------------------------------|
| For the Calendar Year Ended December 31, 2013 | \$ 1,131,933 | \$ 5,075,876 | \$ (6,207,809) | \$ 0 |

4. Account Receivable

Accounts receivable represents the amount that was collected from providers for adjustments to previously adjudicated claims and returned to the plan's Third Party Administrator (TPA) and now due to the plan.

5. Due to Other Governments

This liability represents the accounts receivable, as discussed above, from the plan's TPA which will be returned to the federal government.

6. Retirement Plan

The South Dakota Retirement System (SDRS) is a cost-sharing, multiple employer public employee retirement system established to provide retirement benefits for employees of the State of South Dakota and its political subdivisions. The SDRS provides retirement, disability and survivor benefits. The right to receive retirement benefits vests after three years of credited service. Authority for establishing, administering and amending plan provisions are found in South Dakota Codified Law 3-12. The SDRS issues a publicly available financial report that includes financial statements and required supplementary information. The report may be obtained by writing to the SDRS, P.O. Box 1098, Pierre, SD 57501-1098 or by calling (605) 773-3731.

Employees were required by state statute to contribute 6 percent of their salary to the plan. State statute also requires the employer to contribute an amount equal to the employee's contribution. The right to receive benefits vests after three years of credited service. The PCIP's contributions to the SDRS for the calendar year ended December 31, 2013 was \$2,695, equal to the required contributions each year.

7. Public Entity Pool for Liability

The Bureau of Human Resources is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. The Bureau of Human Resources is uninsured for property loss. The Bureau of Human Resources participates in the various programs administered by the State of South Dakota. These risk management programs are funded through assessments charged to

participating entities. The risk management programs include: 1) coverage for risks associated with automobile liability and general tort liability (including public officials' errors and omission liability, medical malpractice liability, law enforcement liability, and products liability) through the State's Public Entity Pool for Liability Fund; 2) coverage of employee medical claims through the State's health insurance program; 3) coverage for unemployment benefits through the State's Unemployment Insurance Fund; and, 4) coverage for workers' compensation benefits through the State's Workers' Compensation Fund. Financial information relative to the self-insurance funds administered by the State is presented in the State of South Dakota Comprehensive Annual Financial Report.